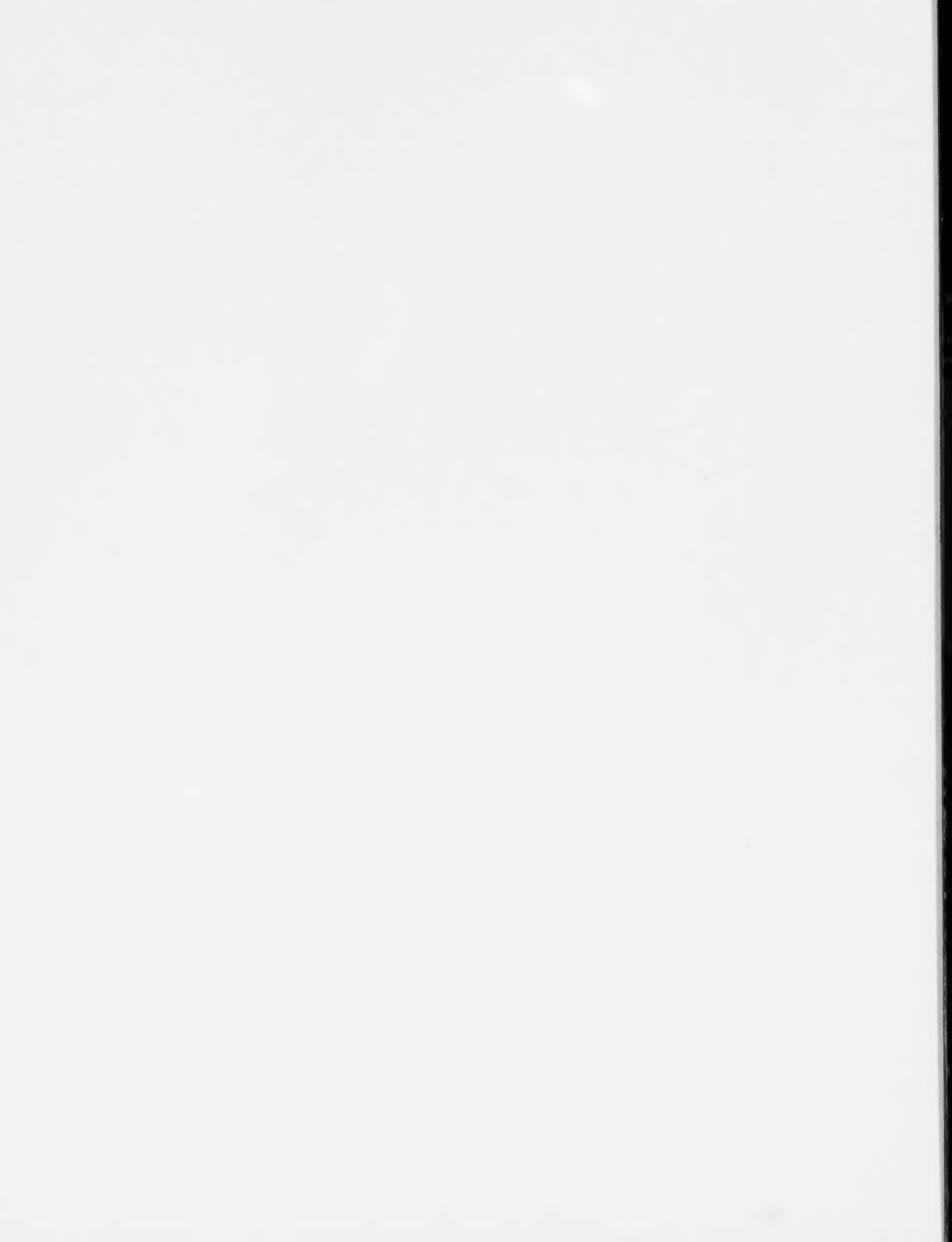


**STRAIT REGIONAL
SCHOOL BOARD
REPORT**

March 2002



Mr. Dennis Cochrane
Deputy Minister
Nova Scotia Department of Education
P.O. Box 578
2021 Brunswick St.
Halifax NS B3J 2S9

Mr. George Kehoe
Chair
Strait Regional School Board
P.O. Box 300
16 Cemetery Road
Port Hastings NS B0E 2T0

PricewaterhouseCoopers LLP
Chartered Accountants
1809 Barrington Street
Suite 600
Halifax, Nova Scotia
Canada B3J 3K8
Telephone +1 (902) 491 7400
Facsimile +1 (902) 422 1166
Direct Tel. (902) 491 7410

March 5, 2002

Subject: Strait Regional School Board

Dear Mr. Cochrane and Mr. Kehoe:

PricewaterhouseCoopers LLP was engaged by the Nova Scotia Department of Education and the Strait Regional School Board to examine and investigate irregular financial transactions and contractual commitments at the School Board. We are pleased to enclose the report of our examination and investigation. The report deals with payments to employees and Board members, payments for goods and services, related parties, ancillary operations, financial reporting, governance and financial oversight. Our report includes the detailed scope of our examination, our findings in each area and recommendations for your consideration.

We wish to express our thanks and appreciation to members of the staff of the Department of Education and the School Board for their cooperation and assistance during this review. We were extended every courtesy during our work.

We appreciate the opportunity to be of service and look forward to meeting with the Board and Department officials to review the report.

Yours truly,

PricewaterhouseCoopers LLP

J. Patrick O'Neil, FCA, CMC
Assurance and Business Advisory Services

STRAIT REGIONAL SCHOOL BOARD REPORT

Table of Contents

INTRODUCTION AND TERMS OF REFERENCE	1
SCOPE OF EXAMINATION	4
PAYMENTS TO EMPLOYEES AND BOARD MEMBERS	7
PAYMENTS FOR GOODS AND SERVICES	11
ANCILLARY OPERATIONS	14
FINANCIAL REPORTING	20
GOVERNANCE AND FINANCIAL OVERSIGHT	26
SUMMARY OF RECOMMENDATIONS	30

APPENDICES

- A. Strait Regional School Board - Timeline of Events and Actions to December 5, 2001
- B. Department of Education – Minister’s Review Committee Report
- C. PricewaterhouseCoopers LLP – Terms of Reference
- D. Draft Audit Committee Charter

INTRODUCTION AND TERMS OF REFERENCE

Introduction

During September, October and November 2001, members of the Board of the Strait Regional School Board (the Board), senior staff of the Strait Regional School Board (SRSB) and the Minister, Deputy Minister and senior staff of the Department of Education, learned of a number of alleged irregularities pertaining to financial transactions and contractual commitments at the SRSB. In the three-month period, many people were interviewed, numerous "in camera" meetings were held, and on a regular basis, new allegations of irregularities were reported in the media. In early November, the Board agreed to turn over the investigation of senior SRSB staff to the RCMP. In cooperation with the Department of Education, the Board also engaged PricewaterhouseCoopers LLP to conduct a forensic audit. A timeline of events and actions to December 5, 2001 is available on the SRSB's website at www.strait.ednet.ns.ca/news/timeline.htm and is reproduced as Appendix A.

The Minister of Education appointed a Review Committee consisting of officials from the Departments of Finance, Justice and Education to advise the Minister regarding the events at the SRSB and matters at the Chignecto – Central Regional School Board. A copy of the Review Committee's report dated December 18, 2001 is available on the internet at [ftp://ftp.ednet.ns.ca/pub/educ/rpt/review.pdf](http://ftp.ednet.ns.ca/pub/educ/rpt/review.pdf) and is reproduced as Appendix B.

The forensic audit commenced with a meeting with Board members on November 16, 2001 and fieldwork at the SRSB offices in Port Hastings, N.S. began November 19, 2001.

Terms of Reference

The terms of reference for the forensic audit were detailed in a letter dated November 23, 2001 to the SRSB and Department of Education. A copy of the letter is attached as Appendix C.

A forensic audit is a rigorous investigation of the financial aspects of a particular situation, with the objective of establishing evidence relating to possible or pending criminal or civil legal proceedings.

The scope of the investigation included:

- Provide the Department of Education and the Board with findings surrounding the activities of the SRSB, for consideration of undertaking possible legal actions and providing an account of the alleged irregularities;
- Conduct interviews of relevant individuals;
- Review other transactions that may be of a questionable nature or do not have the appropriate support in the furtherance of the SRSB's mandate;
- Identify other questionable transactions and related party transactions for possible further investigation;
- Provide internal control and other recommendations to assist the Board to safeguard the SRSB's assets;
- Provide recommendations to assist the Board and the Department of Education in identifying issues of fiscal management related to the SRSB's activities; and
- Identify potential issues in connection with the SRSB's financial statements.

The examination will not provide an opinion regarding the presentation of the SRSB's financial statements or if they comply with generally accepted accounting principles;

The examination will not determine if the audit of the SRSB's financial statements was conducted in accordance with generally accepted auditing standards.

The examination scope was further defined to cover the period 1996-2001 and to include the following items:

Payments to SRSB Employees and Board Members

- Salaries, allowances, benefits, etc.
- Expense allowances and reimbursements
- Employment contracts, amendments, staff appraisals/reviews
- Personnel files, correspondence

Payments for Goods and Services

- Procurement policies and practices
- Major third party contracts
- Major areas of expenditures
- Related party contracts
- Specific payments and contracts

Reports and Reviews

- Annual budgets
- Financial statements
- Auditors' reports
- Internal audits (Department of Education)
- Budget reviews
- Office of Auditor General audits, reviews
- Year-end accruals and adjustments
- Bank confirmations
- Canada Customs and Revenue Agency audits/assessments

Policies and Records

- By-Laws, Policies
- Board and Committee minutes
- Contracts, guarantees, etc.

The results of the investigation will be used by the SRSB, the Department of Education and the RCMP in their assessments of what further actions should be taken.

SCOPE OF EXAMINATION

Introduction

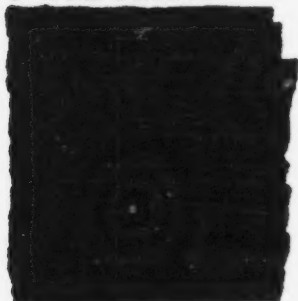
As the terms of our engagement required us to review transactions that appeared to be of a questionable nature in light of certain alleged irregularities, our procedures were conducted to include all aspects of financial reporting, commencing with amalgamation on January 1, 1996, to October 31, 2001. Based on our initial findings (discussed in the sections that follow), we then expanded our procedures, on a limited basis, to the period immediately preceding amalgamation. Our engagement was not an audit, review or compilation of the financial statements or budget of the SRSB, and therefore we are not expressing any opinion with respect to them.

Our procedures included the following, but was not limited to:

- Meetings and interviews of various Board members, SRSB staff, external auditor and Department of Education officials.
- Review of employment contracts for senior SRSB staff.
- Review of SRSB organization charts and selected job descriptions.
- Review of Board meeting minutes (1996-2001), including Finance Committee minutes (through September 1997).
- Review of authoritative accounting guidance for school boards and in particular to school boards in Nova Scotia and legislation including:
 - The Canadian Institute of Chartered Accountants.
 - Nova Scotia Department of Education
 - District School Board Financial Handbook
 - School Board Accounting Policies (January, 2001 Draft)
 - Education Act (Nova Scotia)
- Review of the SRSB's policy with respect to the financial and budget processes.

- Analysis of the SRSB's audited financial statements and approved budgets for the fiscal years 1996-2001 and 1997-2002, respectively and related management letter comments provided by the auditor.
- Request and review bank confirmations (March 31, 1996 – 2001 and October 31, 2001).
- Request and review selected information from external auditor.
- Review of Annual Reports of Salaries and Expenses provided to the Department of Education.
- Review of reports provided to the Office of the Auditor General prepared by SRSB.
- Review of Canada Customs and Revenue Agency payroll audit findings and adjustments.
- Review of personnel files for all senior staff since amalgamation.
- Review of internal financial reporting information (1996 – 2001) including:
 - o General ledger charts of account (note: current accounting system implemented April, 1999)
 - o General journal
 - o General ledger
 - o Bank reconciliations:
 - General account
 - Payroll account
 - o Monthly and year-end journal entries
 - o Payroll registers
 - o T4 and T4A Summaries and related supplementaries
 - o Vendor lists, files and contracts
 - o Year-end working paper files as prepared by SRSB staff
 - o Bank statements, cancelled cheques and bank debit/credit advices:
 - General account
 - Payroll account
 - Guysborough County District School Board (January – March, 1996 only)

- Expense reports for the following staff:
 - o Jack Sullivan
 - o John Cameron



- Credit card payments for all SRSB credit card holders:
 - o Jack Sullivan
 - o John Cameron



- Review of legal correspondence.
- Review of bank correspondence.
- Operating and maintenance agreements re: P3 schools.
- Correspondence re: appointment of auditor
- Trust funds records, financial statements and information returns.

PAYMENTS TO EMPLOYEES AND BOARD MEMBERS

Introduction

Our analysis of payments to SRSB employees and Board members included former employees and Board members. The payments to employees and Board members we examined included base remuneration and stipends, as well as any other payments such as expense reimbursements, advances and/or allowances.

Findings

Our examination of payments to the individuals described above identified significant transactions involving or appearing to benefit Jack Sullivan and John Cameron. Since the matter related to the payments to certain individuals has been referred to the RCMP, we are only presenting a summary of payments to Sullivan and Cameron for the years 1996-2001:

	Jack Sullivan Superintendent of <u>Schools</u> 4 yrs/7 mos	John F. Cameron Director of Business and <u>Support Services</u> 5 yrs/10 mos
Period covered		
Salary	\$480,167	\$510,233
Vacation pay	35,167	43,295
Professional development funds	235,254	251,130 ¹
Severance payments	187,283	-
Travel allowances	128,268	98,000
Salary adjustment	-	160,000 ²
TOTAL	\$1,066,139	\$1,062,658
Monthly average	\$19,384	\$15,180
Annual equivalent	\$232,612	\$182,170
Contracted base salary		
January 1, 1996	\$102,000	\$75,522
January 1, 1999	\$110,000	\$80,772
January 1, 2000	-	\$95,000

Notes to Table:

1. Includes amounts subsequently repaid \$74,054
2. Based upon correspondence between Jack Sullivan and John Cameron, the terms of the salary adjustment were for \$40,000 per year for four years payable subsequent to January 1, 2000
3. In August 2000, an \$11,288.04 payment was made to buy back one year of pensionable service for Linda Sullivan, spouse of Jack Sullivan. This payment was not approved by the Board

In addition to the amounts summarized above, the SRSB made payments for the benefit of Sullivan approximating \$61,000 for payments due on Sullivan's personal loan, of which Sullivan reimbursed SRSB approximately \$8,700 and the remaining amount was offset against a vendor's invoices. Cameron instructed the bank, through faxes, to make payments of approximately \$52,500 of the \$61,000 with his signature only on the instructions, and without Board approval or knowledge, for the benefit of Sullivan.

During a special meeting of the Board on June 21, 2000, a new range of salaries for SRSB central office staff was adopted, effective August 1, 2000. The Superintendent of Schools and Director of Business and Support Services were given the responsibility to determine the revised remuneration of applicable staff based on this range. Although the new range was implemented, the Board did not approve each of the revised salaries or the factors considered in determining staff placement within particular ranges.



During the course of our procedures, we became aware of specific severance / retirement arrangements that did not receive Board approval. Despite the lack of Board approval, we did not become aware of any information to suggest that the employees did not negotiate these arrangements in good faith, expecting that all necessary approvals were in place.

- William MacNeil
 - o Former Superintendent of Antigonish District School Board
 - o Remained an employee of amalgamated Board during 1996 – 1997
 - o Received severance payments totalling \$75,000
 - o Received service award in amount of \$14,000
 - o Severance payments were not approved by the Board
- M.A. MacPherson
 - o Former Director of Educational Services
 - o Received Severance payments totalling \$50,000
 - o Payments reported as “service award” to Canada Customs and Revenue Agency
- Owen Cameron
 - o Former Coordinator of Transportation
 - o Severance agreement calls for payments of \$30,000 per year for the period January, 2001 to January, 2005
 - o Per e-mail communication from John Cameron to Rena Forgeron in March, 2001, agreement based on salary of \$70,000
- Norma Bernard
 - o Former Coordinator of Administrative Services
 - o Severance agreement calls for payments of \$30,000 per year for the period January, 2002 to January, 2004 (\$90,000 total), plus an arrangement requiring a minimum of 200 days service to the SRSB @ \$300 per day (\$60,000 total exclusive of expenses), to be completed by December 31, 2004. (Total \$150,000)

We also observed one other payment (\$8,452.70) in respect of buying back pensionable service. This payment was for Terry Donovan and was not approved by the Board.

Recommendations

We offer the following recommendations as a result of our findings discussed above:

- The terms and conditions of employment with the SRSB for all employees should be approved by the Board and complete documentation included in the employees' personnel files.
- Board approval should be required where special terms are entered into with any employee receiving severance, retirement allowances, and any unusual payments.

PAYMENTS FOR GOODS AND SERVICES

Introduction

We analysed electronic data, as well as reviewed bank transfers and cancelled cheques pertaining to the payment for goods and services. Based upon the SRSB's procurement policy, we reviewed the invoices for payments to vendors who received payments in excess of \$50,000 over the period identified in the Scope of Examination section. In addition to a review of the invoices, we enquired if the goods and services paid for were tendered and formally approved. We also reviewed with the Purchasing Manager, the vendors who were paid more than \$15,000 in any single year. Finally, we reviewed Board minutes to identify if the Board had approved any contracts based upon the tenders issued and presented in staff reports to the Board. Certain goods and services are tendered and negotiated through the Nova Scotia School Boards Association, such as fuel and photocopier services.

Findings

Our examination of payments for goods and services identified several internal control deficiencies, which are discussed in the Financial Reporting section of this report.

The approval of tenders by the Board is inconsistent, in that all tenders awarded do not have Board approval.

There is no formal tracking of tenders; the details of tenders issued, awarded, and tender price versus actual price, are not readily available.

Purchase orders are not used consistently. We also observed instances where purchase orders were prepared subsequent to the receipt of vendor invoices.

At the commencement of our engagement, we were aware of certain transactions with parties who may be considered "related" to the SRSB. These parties include individuals as well as corporations, and are "related" by attribution to family and/or other connections to SRSB employees and Board members. Accordingly, we examined the transactions with these parties, as well as with other vendors identified as requiring further investigation as a result of our procedures discussed in the Scope of Examination section of this report.

Total payments for each vendor include, where applicable, charges for goods and services, fees, expenses and HST, and may not represent the net cost to the SRSB if revenues from cost-sharing arrangements, external funding sources, etc. were received.

Vendor	How "related"	Services provided	Total payments	Evidence of tender?	Comments
MacIntosh Construction Limited		Construction of Mulgrave Operations Centre	\$587,205 (98-99 total)	Yes	Sullivan advised Board of conflict and left Board meeting during award of tender
Knowledge House Inc. / Knowledge House TS Limited	Employer of Jack Sullivan during leave of absence	Technology and user support services	\$797,182 (Sept/00 - Oct/01)	No	Six-year service agreement effective April/00 (\$279,805 per year) Total payments include \$160,000 on behalf of SENCEN
John F. Cameron Consulting / Achnacarry Consulting Limited	John F. Cameron, Sr. is father of John Cameron, Director of Business and Support Services	Fundraising	\$106,260 (March/00 - July/01)	No	John Cameron Jr. left meeting during Board vote to accept father's unsolicited proposal. Cameron, Sr. memo describes services to date; no report of funds raised
Beowulf Consulting Services Limited		Heritage Fair program coordination	\$35,507 (March/99 - July/00)	No	

Recommendations

We offer the following recommendations as a result of the findings discussed above:

- The Board should formalize a procurement policy based upon its requirements for goods and services. This policy should cover both operating and capital purchases.
- A centralized tracking system should be developed for the tender process identifying the tender number, those who responded to the tender with quotations, supplier / contractor awarded the tender, a review of the work performed and a variance analysis of the prices charged versus the tendered price or quote.
- Contracts that are multi-year in nature should provide for an annual review of services, with the right to terminate in the event of non-performance.

Ancillary Operations

Introduction

Our examination of ancillary operations considered facilities and entities, which based on our understanding of their purpose, are not fully aligned with the vision of the SRSB. This vision states the following:

"To provide programs and services through a delivery system comprised of Grade Primary to Eight and Grade Nine to Twelve student groupings."

The assessment of the educational, community and other benefits achieved as a result of the operations of the ancillaries is beyond the scope of this examination. Therefore, we do not provide any opinion in connection with the cost of these operations. However, it is beneficial to the readers of this report if these operations are identified and complemented with an explanation of the relationships with the SRSB.

Findings

The ancillary operations that our findings relate to are Strathspey Place (also known as Strathspey Place Association), Mulgrave Professional Development Centre, Braemore Centre of Excellence, Chedabucto Place and Atlantic Learning Innovations Network (including Strait East Nova Community Enterprise Network). Two of the above operations, the Braemore Centre of Excellence and Mulgrave Professional Development Centre, are also physical locations managed by SRSB. For each operation, we have described our understanding of its purpose, as well as major issues that relate to the SRSB's involvement with each entity, including commentary on costs.

Strathspey Place

Strathspey Place is a performing arts centre located in Mabou, NS that was constructed in connection with the Central Inverness Academy, a public private partnership (P3) school. The Department of Education has funded the total construction and fit-up cost of the theatre. However, approximately \$1.2 million of the funds provided by the Province are attributable to the internal furnishings or the "fit-up" (seats, equipment, etc.) of the theatre, which are the responsibility of the SRSB. Although the Board was aware of the theatre being built, it was

not apprised of the commitment made by Jack Sullivan and John Cameron of SRSB resources for the approximately \$1.2 million in capital expenditures at the facility. The commitment has been partially satisfied (\$600,000) by the receipt of Enterprise Cape Breton Corporation (ECBC) assistance. However, the remaining balance of approximately \$600,000 remains in dispute. The commitment to the Province is not reflected in SRSB's financial statements as at March 31, 2001.

In addition to the financial obligation made by the former Superintendent and former Business Director, the Society's officers and directors are comprised of SRSB staff and members. As part of the central office restructuring, [REDACTED]

[REDACTED] The majority of the Manager's time is devoted to the management of the theatre facility and the balance is available for Primary to Grade 12 programming.

[REDACTED]

Through discussions with SRSB staff and our review of Board minutes, it was indicated that John Cameron's father was retained to raise funds for the facility, and to date, it appears that other than ECBC assistance, no significant contributions have materialized. Although, the former Business Director was not present at the time of the Board's vote to engage Cameron, Sr., [REDACTED]

Correspondence between the Department of Education and senior SRSB staff indicated that the SRSB would repay the Province for its share of the costs associated with the construction of Strathspey Place. However, the correspondence did not indicate that the Board had approved this commitment. Our review also identified correspondence dated July 10, 2001, where Cameron indicated it was he who personally guaranteed the repayment of funds to the Province in order for the project to proceed.

In addition to the above, the Nova Scotia Liquor Corporation license was initially issued to the facility in the name of the SRSB, which allows the service of alcoholic beverages on a property controlled by the SRSB. It is not known who provides insurance coverage for any type of action that may arise due to the serving of alcoholic beverages or the risk the SRSB is exposed to. We understand SRSB no longer holds the license.

Mulgrave Professional Development Centre ("MPDC")

MPDC facilitates the SRSB staff training and curriculum development projects, while simultaneously providing technology and training facilities available for other entities. In October 1997, the Board approved the terms of reference for a Coordinator of Professional Development Centre. Subsequent to this approval, a SRSB employee was transferred to this position with an increase in salary equivalent to a Director's level. As part of the administrative function of MPDC, SRSB currently pays the salary of the facility administrator, who oversees the leasing of space at the centre. Tenants have included Knowledge House Inc. and ALIN. However, based upon discussions with the Acting Superintendent, ALIN will be vacating the premises. Our review of the records and financial information provided by the Coordinator of Finance did not indicate that a significant amount of rent was earned by MPDC. The operating loss for the eight months ended November 30, 2001 is approximately \$50,000. Also, we did not identify any signed leases between tenants and the SRSB.

Braemore Centre of Excellence ("Braemore Centre")

The Braemore Centre was a former elementary school, is located in Antigonish, NS and is being managed by SRSB. The Braemore Centre also provides facilities for tenants, which have included the St. F.X. Teacher Resource Centre, Adult Learning Society and the Venture Centre. We did not observe any formal rental agreements between the tenants of the Braemore Centre and the SRSB.

Similar to MPDC, the SRSB pays the salary of the facility administrator. The staff at the Braemore Centre was reassigned to this location through the central office restructuring effective August 1, 2000. Capital expenditures have been made to improve the facilities at the Braemore Centre without the knowledge of the Board. One such expenditure noted during our review involves a local contractor who installed network cable at the facility. Neither the contractor nor the Board had any documentation indicating who may have ordered the work performed. During the time of this work, there was purported to be a tripartite management of Braemore Centre between Knowledge House, ALIN and the SRSB. However, this arrangement did not formally materialize, leaving only ALIN and the SRSB to operate Braemore Centre.

The Acting Superintendent, on behalf of the SRSB, communicated principles, which, if followed, could form the basis of a cost-sharing arrangement. In the absence of a formal agreement, specific items related to Braemore Centre are being handled as follows:

- SRSB provides staff for administration and maintenance;
- ALIN space is provided at no charge; and
- ALIN is to assume the costs for electrical and communications upgrades.

Based upon discussions with and information provided by [REDACTED] the Braemore Centre:

- Did not have signed leases with tenants; and
- The operating loss for the eight months ended November 30, 2001 was approximately \$70,000.

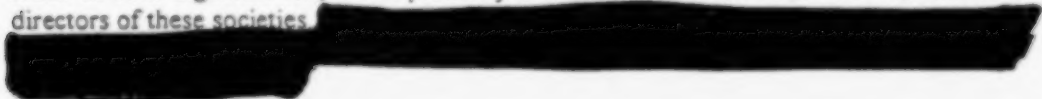
Chedabucto Place

Located in Guysborough, NS, Chedabucto Place includes facilities for community use. However, the terms of agreement between SRSB and the Municipality of Guysborough are not finalized regarding cost sharing matters and funds availability. The SRSB has incurred costs during the nine months ended December 31, 2001 of approximately \$18,000, consisting primarily of fees paid to Achnacarry Consulting Limited. These fees were primarily for fundraising.

Strait East Nova Community Enterprise Network ("SENCEN") and Atlantic Learning Innovations Network ("ALIN")

SENCEN initially provided and facilitated public access to information technology via community access points ("CAP" sites). The Board, as indicated in Board meeting minutes, was informed that funding for this operation would be acquired through grants from both the Provincial and Federal governments. However, it appears that the SRSB assisted in providing the start-up funding through actual expenses paid, including salaries to SRSB staff members while working on behalf of SENCEN. In addition to the actual costs incurred, SENCEN, which was organized as a society with the Registry of Joint Stock Companies, included directors who were employed as senior SRSB staff.

ALIN, which evolved from SENCEN, continued to provide the technological infrastructure to the rural communities within the SRSB's region and other areas. In addition to the technological infrastructure, ALIN promoted community economic development programs for the information economy. Similar to SENCEN, this entity was organized as a society with the Registry of Joint Stock Companies and included directors who were also employed as SRSB staff. In both organizations, it was primarily selected senior SRSB staff who were listed as directors of these societies.



Wilf MacNeil, the current Chair and CEO of ALIN, was appointed to this position at the time of the restructuring of the SRSB effective August 1, 2000. Mr. MacNeil had an agreement signed by the former Superintendent for a three year secondment for which he would be employed by SENCEN. However, SRSB has paid Mr. MacNeil's salary while on this secondment. The SRSB's financial statements presented costs on the Statement of Operations in the School Administration and Instruction amounts, associated with SENCEN/ALIN for the year ended March 31, 2001 in the amount of \$407,421. We understand that these costs were fully recovered in 2001 from grants received from the Province of Nova Scotia.

The SRSB financial statements also included a receivable from ALIN as at March 31, 2001 in the amount of \$112,441.

It is our understanding that the SRSB and ALIN have entered into discussions to resolve amounts due.

Recommendations

We offer the following recommendations as a result of the findings discussed above:

- The Board should immediately review the SRSB's association with all entities and facilities not deemed an integral component of the delivery of P-12 educational programs.
- The Board should ensure all resources are committed to the education of children in the P-12 system consistent with its vision and mandate.
- The Board should consider adopting a policy that restricts senior staff from having dual positions or other potentially beneficial interests with affiliated or contracted entities without specific Board approval.
- The financial statements of the SRSB should include full disclosure for material transactions involving related parties.
- Included in the mandate of the Audit Committee, should be discussions with the external auditor regarding related party transactions.

FINANCIAL REPORTING

Introduction

With respect to financial reporting, our examination of the SRSB considered both external and internal reporting. External reporting includes the provision of certain financial information to the following groups:

- Nova Scotia Department of Education
- Office of the Auditor General
- Canada Customs and Revenue Agency
- Financial institutions

Internal reporting consists primarily of financial information provided to the members of the Board and SRSB senior management.

Findings

Our investigation identified a number of discrepancies and exceptions, ranging in severity from relatively minor or isolated breaches of policy and controls, to instances of extreme disregard for controls and fundamental reporting requirements. Our findings in the area of financial reporting are discussed below.

External Reporting

Subsequent to the three-year appointment of the auditor for the years ended March 31, 1997 – 1999 (tendered), the auditor was re-appointed in each of the years 2000 and 2001, without issuing a request for proposals and conducting a tender competition.

Trust Funds

The various trust funds (March 31, 1997 - \$122,950) administered by the SRSB are not disclosed in the audited financial statements subsequent to March 31, 1997. Furthermore, the March 31, 1996 trust fund balances presented in the March 31, 1997 statements for comparative purposes do not agree with the balances per the March 31, 1996 statements.

The Registered Charity Information Returns for the Guysborough County Charitable Trust have not been filed with Canada Customs and Revenue Agency ("CCRA") for the years ended July 31, 1996 – 2000. In fact, the charitable status of this trust was revoked by CCRA effective February 5, 2000, presumably as a result of delinquent returns.

There is some uncertainty with respect to the purpose of a trust fund that was granted charitable status by CCRA in April 2000. Strathspey Place Association is named as the registered charity, however, the charitable receipts refer to "SRSB / Life Long Learning Trust / Strathspey Place Association." The initial return, which should reflect donations received in the current year, was to be filed with CCRA by September 30, 2001; it is our understanding that this return remains outstanding.

The Auditor's Report refers to the financial statements as being "... in accordance with generally accepted accounting principles adopted for Nova Scotia Municipalities", as opposed to principles for "school boards in the Province of Nova Scotia."

The audited financial statements for the year ended March 31, 2001 do not disclose a liability to the Province of Nova Scotia in the approximate amount of \$600,000. This indebtedness is related to capital costs of Strathspey Place in Mabou, N.S.

The operating loss of \$168,555 in respect of Strathspey Place is improperly deducted from accounts payable on the March 31, 2001 Balance Sheet. Generally accepted accounting principles require that this loss be reflected in the Statement of Operations, increasing the deficit for the year by the same amount.

On November 25, 1998 a loan guarantee and postponement of claim in the amount of \$500,000 was executed by the SRSB in favour of the Royal Bank of Canada with respect to the indebtedness of Jack Sullivan. The guarantee was signed by Marie Campbell, SRSB Chair, and John Cameron, Director of Business and Support Services. The guarantee was executed without the knowledge or consent of the Board. Generally accepted accounting principles require contingent liabilities of this nature be disclosed in the financial statements. Accordingly, the guarantee should have been disclosed in the financial statements in each of the years ended March 31, 1999, 2000 and 2001.

The external auditor has indicated to us that as part of his audit procedures, he did not seek confirmation from the Royal Bank as to the various banking arrangements, account and loan balances and contingent liabilities.

John Cameron, in his capacity as Director of Business and Support Services, had a duty to disclose the guarantee to the Board, as well as ensure the contingency was disclosed in the financial statements.

Generally accepted accounting principles require commitments of a significant nature be disclosed in the financial statements. Accordingly, it appears a technical support agreement with Knowledge House Inc. / Knowledge House TS Limited should have been disclosed in the audited financial statements.

Selected information in the Annual Report of Salaries and Expenses filed with the Department of Education by the SRSB was misstated, in that specific payments related to employment were consistently omitted.

On April 19, 2000, the Office of the Auditor General requested the SRSB provide information pertaining to annual compensation, benefits and related arrangements. John Cameron responded to this request on June 29, 2000 with respect to the March 31, 2000 year-end. A comparison of the information provided to the Auditor General with actual remuneration varies considerably. Payments in respect of professional development and salary adjustments were excluded in this report.

Canada Customs and Revenue Agency ("CCRA") completed an audit of the payroll and related documentation of the SRSB in January 2001. This audit determined that the total remuneration of certain employees and Board members was not reported to CCRA as required. Travel allowances paid to Jack Sullivan and John Cameron are the most significant amounts that were excluded from the returns as originally filed by the SRSB. Senior staff directed that these allowances not be included in the taxable incomes of the recipients. CCRA has subsequently amended the T4 supplementaries of these individuals.

Internal Reporting

 A number of transactions, including the payment of professional development and travel allowances and the payment of bank loans, were paid via bank transfers supported by only one signature, rather than two signatures as required. Satisfying bank loan payments through vendor offset transactions is another example.

Professional development and travel allowances were paid in advance. By February 1997, Jack Sullivan had received professional development allowances for the years up to and including 2000; and by July 1998, had received monthly travel allowances up to and including March 1999. By September 1997, John Cameron had received his professional development allowance for 1998.

Jack Sullivan also received numerous advances. One such advance is reflected in a July 1999 cheque in the amount of \$6,200, representing estimated travel (4,000 km per month) outside the SRSB region, and therefore in addition to the regional travel covered by his monthly travel allowance over the next 5 months (total 20,000 km @ \$.31/km). This amount was eventually reimbursed to the SRSB in July 2000 as a reduction in an expense claim for actual travel outside the region for the period July 1999 to July 2000.

Prepayment of expenses in advance of the period to which they relate was initially charged to prepaid expense accounts. This would result in the payments being less obvious to readers of internal financial statements, as the payments would not be reflected in operating statements until a future period.

Withholding taxes were not calculated in accordance with rates established by CCRA for lump-sum payments. SRSB staff were advised the amount of income tax to be deducted from professional development allowances without regard for the amounts required to be withheld by the SRSB.

The Finance Committee essentially ceased to exist after September 1997 and became a part of the Working Committee of the Board.

The minutes of the Working Committee have limited reference to financial matters. We have been advised that financial reports were not given to the Board on a regular basis, and that in general, the Board was not well informed of the financial position or results of operations, and were provided minimal explanations regarding variances from previous periods or budget.

Cash resources were not well managed. We observed that bank reconciliations were not prepared on a timely basis, and that during the period of our investigation, forecasts of cash flows for the balance of the fiscal year had not been prepared.

Recommendations

We offer the following recommendations as a result of our findings discussed above:

- Transactions involving Strathspey Place should be segregated in the financial statements, as it appears the operation of this facility does not fall within the mandate of the SRSB. Furthermore, the benefits of the SRSB's association with Strathspey Place have not been made clear during the course of our examination, particularly when the operating deficit and use of SRSB resources are considered.
- The status of the various trust funds administered by the SRSB should be reviewed immediately. For each fund, the purpose, charitable status and financial position must be determined. The required reporting to CCRA must be attended to promptly, and the funds should be included in the SRSB's audited financial statements.
- The liability to the Province of Nova Scotia regarding Strathspey Place capital costs requires immediate consideration. The actual indebtedness and an agreement with respect to settlement should be reached between the Province and the SRSB.
- A policy should be developed that would require the Chair and senior management to disclose to the Board any arrangements being contemplated or undertaken that would have an impact on the resources of the SRSB.

- Timely financial reports, prepared in accordance with generally accepted accounting principles established for school boards in the Province of Nova Scotia, should be presented to the Board by the Director of Business and Support Services on a monthly basis. The reports should consist of a Balance Sheet and detailed Statement of Operations, and include results of the current period compared to results of previous periods, as well as to budget, with detailed variances noted and explained by the Director. These reports should be a regular inclusion on the agenda of each monthly Board meeting.
- The Director of Business and Support Services should keep the Board informed of current and projected cash flows. All bank accounts should be reconciled on a timely basis and approved by the Director.
- The financial statements should clearly identify the financial position and results of operations for all ancillary functions.
- Special meetings of the Board to consider draft budgets / budget process should be initiated and held annually.
- We recommend the Board also receive the following monthly reports:
 - Schedule of all vendor / employee payments of \$10,000 or more in the month
 - Schedule of all vendor / employee payments of \$100,000 or more year-to-date
- Policies with respect to approval of invoices and processing of payments to vendors and employees need to be strengthened. The Board must ensure that payments do not get processed without the proper authorizations and requisite support. It is imperative that bank instructions require the signature of 2 (at minimum) signing officers.
- We recommend all expense claims of senior management (Superintendent and Directors) be approved at the Board level.
- The Board should play an active role in the establishment, modification and approval of the remuneration packages of all staff at the regional office.

GOVERNANCE AND FINANCIAL OVERSIGHT

Governance

With respect to governance, the Education Act of the Province sets out in section 64(2) the duties of School Boards, which, among other things, includes:

- “(e) hire and pay the superintendent, principals, teachers and other staff;
- (ab) provide for the effective and efficient management of the financial affairs of the board;
- (ai) designate persons to execute agreements on behalf of the School board
- (am) submit to the Minister an annual report containing such information as is required by the Ministers.”

Further, section 82 of the Education Act states:

“The funds of a School board shall be disbursed only by the board, and if the board determines the services provided by it or some of them shall be provided by others, payment for those services shall be made only on certification of accounts in a manner satisfactory to the School board.”

Since its formation in 1996 the Board members, acting together as the “Board”, have not been aware of several contractual arrangements that have been entered into by the corporate entity – “Strait Regional School Board”. The contracts were signed by appropriate authorities acting as signing officers on behalf of the SRSB, but without the knowledge and consent of the Board. The contracts referred to include employment contracts for the former Superintendent and the Director of Business and Support Services and the loan guarantee for John F. Sullivan.

While the Board was not aware of the terms of the above contracts, neither did it seek out, enquire or demand to be informed of the contractual arrangements for the two most senior management persons in the SRSB's employ. The fact that a provincially appointed Co-ordinator of Amalgamation was responsible for their initial contracts, no doubt played a role in the Board not enquiring.

It is clear, given the terms of the contracts and the quantum of the payments, that the contracts were deliberately withheld from the Board, as there is little likelihood that they would have been approved. Had the Board pursued these matters in 1996 and 1997, financial losses to the SRSB could have been reduced significantly.

Recommendations

- Contracts entered into by the SRSB, including employment contracts, should be reviewed and, if appropriate, approved by the Board before being entered into. For ease of administering small contracts, a dollar amount could be set for those contracts not requiring specific Board approval.
- All payments to employees over and above salary and travel reimbursement should be reviewed and approved by the Board in advance of their payment.
- On a monthly basis, the Board should be provided with a detailed listing of all payments to suppliers for goods and services for their review.
- All reports required to be filed with the Minister, the Department, Office of the Auditor General, etc. be presented to the Board for their review before release. Senior officers responsible for the reports should attest to their accuracy, completeness and conformance with reporting requirements.

Minutes of Proceedings of Board and Committees

The School Board's By-Law 9.1 states that:

"Minutes of proceedings of all meetings of the Board and of its Committees shall be taken and kept with the records of the Board."

The Board does hold meetings "In Camera" as permitted by its By-Law 7.1. However, minutes of the proceedings while "In Camera" are not recorded.

Recommendation

- Minutes of proceedings of "In Camera" meetings of the Board should be recorded and retained. An alternative would be to tape record the meetings and prepare transcriptions on an "as required" basis.

Financial Oversight

Responsibility for financial oversight of the SRSB's affairs rests ultimately with the Board. While the Department of Education takes a lead role in Primary to Grade 12 education in the province and has a significant interest in the financial affairs of school boards, primary responsibility for financial oversight belongs to each school board. The challenges in carrying out effective financial oversight are many and varied, including:

- Limited financial resources in the face of many competing demands
- Increasing legal, regulatory and statutory reporting requirements
- Complex financial and accounting transactions and related reporting and disclosure requirements
- New and ever-changing information processing systems
- Internal controls and management of risks
- Regular financial reporting, comparisons to plans, variance analysis and future forecasts

Increasingly, in the corporate, government and not-for-profit sectors, boards of directors are turning to audit committees of the boards to take on major roles in financial oversight. The audit committees are chartered to take on very specific mandates and members are appointed to the committees who are financially literate, available to dedicate their focus to audit committee business, understand controls and governance, are inquisitive by nature, and persistent in their enquiries.

Recommendations

- Given the Board's primary focus on programs and services for students and the resultant demands upon Board members' time for educational and human resource matters, as well as the challenges in providing strong financial oversight, the SRSB should charter an audit committee to assist the Board in fully discharging its responsibilities in this area.
- The audit committee charter would include purpose, authority, composition, meetings and responsibilities. The Committee would carry out responsibilities in the following areas: financial statements, internal control, internal audit (liase with Department of Education), external audit, compliance with laws and regulations, financial reporting and other responsibilities as assigned.
- Members of the audit committee could be recruited from the SRSB region and would be expected to commit to full participation in the Committee's activities and reports to the Board.

Reporting to the Board

The audit committee would report to the Board at least quarterly and would ensure a system of regular financial reporting was in place for the Board to fully satisfy its good governance mandate.

Draft Charter

Attached as Appendix D, is a draft Audit Committee Charter, which outlines purpose, authority, composition, meetings and responsibilities.

SUMMARY OF RECOMMENDATIONS

1. The terms and conditions of employment with the SRSB for all employees should be approved by the Board and complete documentation included in the employees' personnel files.
2. Board approval should be required where special terms are entered into with any employee receiving severance, retirement allowances, and any unusual payments.
3. The Board should formalize a procurement policy based upon its requirements for goods and services. This policy should cover both operating and capital purchases.
4. A centralized tracking system should be developed for the tender process identifying the tender number, those who responded to the tender with quotations, supplier / contractor awarded the tender, a review of the work performed and a variance analysis of the prices charged versus the tendered price or quote.
5. Contracts that are multi-year in nature should provide for an annual review of services, with the right to terminate in the event of non-performance.
6. The Board should immediately review the SRSB's association with all entities and facilities not deemed an integral component of the delivery of P-12 educational programs.
7. The Board should ensure all resources are committed to the education of children in the P-12 system consistent with its vision and mandate.
8. The Board should consider adopting a policy that restricts senior staff from having dual positions or other potentially beneficial interests with affiliated or contracted entities without specific Board approval.
9. The financial statements of the SRSB should include full disclosure for material transactions involving related parties.
10. Included in the mandate of the Audit Committee, should be discussions with the external auditor regarding related party transactions.

11. Transactions involving Strathspey Place should be segregated in the financial statements, as it appears the operation of this facility does not fall within the mandate of the SRSB. Furthermore, the benefits of the SRSB's association with Strathspey Place have not been made clear during the course of our examination, particularly when the operating deficit and use of SRSB resources are considered.
12. The status of the various trust funds administered by the SRSB should be reviewed immediately. For each fund, the purpose, charitable status and financial position must be determined. The required reporting to CCRA must be attended to promptly, and the funds should be included in the SRSB's audited financial statements.
13. The liability to the Province of Nova Scotia regarding Strathspey Place capital costs requires immediate consideration. The actual indebtedness and an agreement with respect to settlement should be reached between the Province and the SRSB.
14. A policy should be developed that would require the Chair and senior management to disclose to the Board any arrangements being contemplated or undertaken that would have an impact on the resources of the SRSB.
15. Timely financial reports, prepared in accordance with generally accepted accounting principles established for school boards in the Province of Nova Scotia, should be presented to the Board by the Director of Business and Support Services on a monthly basis. The reports should consist of a Balance Sheet and detailed Statement of Operations, and include results of the current period compared to results of previous periods, as well as to budget, with detailed variances noted and explained by the Director. These reports should be a regular inclusion on the agenda of each monthly Board meeting.
16. The Director of Business and Support Services should keep the Board informed of current and projected cash flows. All bank accounts should be reconciled on a timely basis and approved by the Director.
17. The financial statements should clearly identify the financial position and results of operations for all ancillary functions.
18. Special meetings of the Board to consider draft budgets / budget process should be initiated and held annually.

19. We recommend the Board also receive the following monthly reports:
 - o Schedule of all vendor / employee payments of \$10,000 or more in the month
 - o Schedule of all vendor / employee payments of \$100,000 or more year-to-date
20. Policies with respect to approval of invoices and processing of payments to vendors and employees need to be strengthened. The Board must ensure that payments do not get processed without the proper authorizations and requisite support. It is imperative that bank instructions require the signature of 2 (at minimum) signing officers.
21. We recommend all expense claims of senior management (Superintendent and Directors) be approved at the Board level.
22. The Board should play an active role in the establishment, modification and approval of the remuneration packages of all staff at the regional office.
23. Contracts entered into by the SRSB, including employment contracts, should be reviewed and, if appropriate, approved by the Board before being entered into. For ease of administering small contracts, a dollar amount could be set for those contracts not requiring specific Board approval.
24. All payments to employees over and above salary and travel reimbursement should be reviewed and approved by the Board in advance of their payment.
25. On a monthly basis, the Board should be provided with a detailed listing of all payments to suppliers for goods and services for their review.
26. All reports required to be filed with the Minister, the Department, Office of the Auditor General, etc. be presented to the Board for their review before release. Senior officers responsible for the reports should attest to their accuracy, completeness and conformance with reporting requirements.
27. Minutes of proceedings of "In Camera" meetings of the Board should be recorded and retained. An alternative would be to tape record the meetings and prepare transcriptions on an "as required" basis.

28. Given the Board's primary focus on programs and services for students and the resultant demands upon Board members' time for educational and human resource matters, as well as the challenges in providing strong financial oversight, the SRSB should charter an audit committee to assist the Board in fully discharging its responsibilities in this area.
29. The audit committee charter would include purpose, authority, composition, meetings and responsibilities. The Committee would carry out responsibilities in the following areas: financial statements, internal control, internal audit (liase with Department of Education), external audit, compliance with laws and regulations, financial reporting and other responsibilities as assigned.
30. Members of the audit committee could be recruited from the SRSB region and would be expected to commit to full participation in the Committee's activities and reports to the Board.

APPENDICES

- A. Strait Regional School Board
Timeline of Events and Actions to December 5, 2001
- B. Department of Education
Minister's Review Committee Report
- C. PricewaterhouseCoopers LLP
Terms of Reference
- D. Draft Audit Committee Charter

STRAIT REGIONAL SCHOOL BOARD**"Excellence in Lifelong Learning"**

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Timeline of Events and Actions to December 5, 2001

Date: Wednesday, December 5, 2001

September 6, 2001

John F. Cameron, Director of Business and Support Services notified the Acting Superintendent Phonse Gillis that a loan guarantee had been signed by the Strait Regional School Board on behalf of John F. Sullivan in November 1998. The Acting Superintendent informed Board Chair Rosalee Parker.

Mr. Sullivan was on a two-year leave of absence (August 1, 2000 to July 31, 2002) and working for Knowledge House.

September 12, 2001

Mr. Gillis asked Mr. Cameron for details surrounding the signing of the loan guarantee.

September 14, 2001

Mr. Gillis met with Mr. Sullivan in Halifax to discuss the circumstances surrounding the loan guarantee.

McInnes Cooper, SRSB legal counsel, was retained to review the current situation faced by the Board and seek advice on what action the Board will need to pursue in order to protect its assets.

September 17, 2001

Royal Bank notified the Board that Mr. Sullivan's loan payments were three months in arrears. Royal Bank requested that payments be brought up to date in accordance with the Guarantee/Postponement of Claim or the Bank would send loan into default resulting in payment of the outstanding amount of \$310,000.00.

Mr. Gillis notified Board Chair Rosalee Parker. In order for the Board to have more time to examine options with its solicitors, it was decided to make one payment of \$8,700 on a "Without Prejudice" basis.

September 20, 2001

McInnes Cooper provided preliminary legal advice as to legal options available to the Board.

September 21, 2001

Mr. Gillis visited the Royal Bank in Port Hawkesbury to notify them that the Strait Regional School Board would not honor the Guarantee/Postponement of Claim signed in November 1998.

October 3, 2001

Mr. Gillis requested a meeting with Dennis Cochrane, Deputy Minister of Education.

October 4, 2001

Mr. Gillis met with Deputy Minister Cochrane and provided him with information related to the Guarantee and steps taken to date.

October 5, 2001

Department of Education contacted Mr. Gillis to indicate their support and advice.

October 9, 2001

Mr. Gillis spoke with the Deputy Minister regarding the conversation with Mr. Sullivan. He informed the Deputy that the Strait Regional School Board would be meeting on Wednesday, October 17 at its regular working session. The Deputy Minister advised that Mr. Sullivan was working on 'paying out the loan' and that Mr. Gillis could take the matter to the Board at its regular working committee meeting on October 17.

October 10, 2001

McInnes Cooper notified the Royal Bank of Canada that the provisions of the *Education Act* do not allow the Board to enter into a Guarantee/Postponement of Claim for any of its employees and that accordingly, the Guarantee/Postponement of Claim was void and unenforceable.

October 17, 2001

Board Chair Rosalee Parker and Mr. Gillis informed Board members at an 'in camera' session, prior to the Working Committee, of the signing of a Guarantee/Postponement of Claim for John F. Sullivan in the amount of \$500,000.00 in November 1998.

October 19, 2001

Board Chair Rosalee Parker and Acting Superintendent Phonse Gillis met with officials from the Departments of Education, Finance and Justice regarding background information and findings.

Board Chair Rosalee Parker and Acting Superintendent Phonse Gillis met with McInnes Cooper to discuss the meeting held earlier in the day with the Department of Education, Finance and Justice officials.

October 22, 2001

The Strait Regional School Board members met 'in camera' with McInnes Cooper to outline the process to be followed during the pending investigation.

John F. Cameron, Director of Business and Support Services requested time off while the Board investigated current legal issues.

October 23, 2001

Correspondence was sent to John F. Sullivan, Marie Campbell and John Cameron requesting them to appear before the Board on Friday, October 26, 2001.

Press release was issued - Strait Board Responds to Ministerial Release (attached).

October 24, 2001

The Strait Regional School Board members met 'in camera' to review the progress to date. Board issues a press release - Strait Board Backs Chair and Superintendent.

October 25, 2001

Letter received from Dennis Cochrane, Deputy Minister of Education regarding an in-depth review and a planned meeting for Tuesday, October 30, 2001 from 9:00 a.m.-12 noon at the Board.

October 26, 2001

The Strait Regional School Board members met 'in camera' with legal counsel and Department of Education officials to interview John F. Sullivan, Marie Campbell and John Cameron.

Mr. Sullivan reimbursed the September payment of \$8,700.00.

Board issued a press release - Strait Board Investigation Continues.

October 30, 2001

Board Chair Rosalee Parker, Mr. Gillis and legal counsel met with representatives and legal counsel of the Departments of Education and Finance to review the status of matters to date.

The Strait Regional School Board members met 'in camera' to continue its investigation. The Board received information relating to legal representation for Mr. Sullivan. The Board agreed to accept Mr. Sullivan's resignation as Superintendent and issued a press release - Strait Board Accepts Mr. Sullivan's Resignation.

November 1, 2001

The Strait Regional School Board members met 'in camera' to continue its investigation. The Board passed a resolution disciplining Mr. Cameron and issued a press release - Strait Board Concludes Guarantee/Postponement of Claim Investigation.

November 2, 2001

Mr. Gillis was advised by Rena Forgeron, Coordinator of Financial Services, of irregular payments made to Mr. Sullivan and Mr. Cameron in excess of \$250,000.00. The Board held an emergency meeting 'in camera' to review the infraction and agreed to meet again on November 5, 2001.

Mr. Gillis spoke with Mr. Cameron to obtain information regarding the irregular financial payments.

November 3, 2001

Mr. Gillis met with legal counsel McInnes Cooper to provide new information and to seek advice on legal options for the Board.

November 5, 2001

The Board met 'in camera' to consider new information. The Board approved the following motions:

- To turn over to the RCMP the investigation of Mr. Sullivan and Mr. Cameron.
- To terminate Mr. Cameron's employment effective immediately.
- To implement steps that could result in the termination of Mr. Sullivan's employment as teacher.

The Board issued a press release - Strait Board Will Hand Over Information to RCMP

November 6, 2001

A Financial Services employee was suspended pending further investigation by the Board.

November 7, 2001

The Board met 'in camera' to continue its investigation. Mrs. Rena Forgeron appeared before the Board to provide information related to the financial investigation. The Board determined that Mrs. Forgeron had processed payments to Mr. Sullivan and Mr. Cameron only after receiving authorization from her direct supervisors. A press release was issued - [Strait Board Moves Forward With Investigation](#).

November 8, 2001

The Department of Education, with the agreement of the Board, announced that PricewaterhouseCoopers will be retained to do a forensic audit of the Board's finances. The audit will review past financial transactions and practices, and provide recommendations for the future.

November 13, 2001

The Board met 'in camera' to continue its investigation. Mr. George Unsworth, former Strait Board Amalgamation Coordinator attended to provide board members with information regarding the hiring of Mr. Sullivan.

November 14, 2001

The Department of Education and Strait Regional School Board announce that an interim Chief Financial Officer will be appointed. Release issued - [CFO To Be Appointed to Strait School Board](#).

November 16, 2001

The Board met with representatives of PricewaterhouseCoopers to review the scope of the forensic audit.

November 19, 2001

Representatives of PricewaterhouseCoopers began the forensic audit.

November 20, 2001

The Board met 'in camera' to receive an update on the financial investigation and to discuss the hiring of an interim Chief Financial Officer.

November 27, 2001

The Board met in Working Committee (special - in camera) to receive updates on the financial investigation and the Deputy Minister of Education.

December 4, 2001

The Board met in Working Committee (special - in camera) to continue its investigation. Staff Sergeant Upshall of the RCMP, Abel Lazarus of PricewaterhouseCoopers and Wayne MacMillan, a criminal lawyer attended the meeting as requested by Board members. The Board received legal advice and an update from legal counsel.

The Board agreed to hold a press conference on December 5 in order to provide the public with an update and clarification of events and actions to date related to the financial investigation.

December 5, 2001

The Board held a press conference with members of the public and media. Two press releases were issued - [Strait Board Provides Update on Investigation and Extensive Forensic Audit Underway](#).

Home

[Back to News Release Index](#)

REPORT ON THE
CHIGNECTO-CENTRAL
AND STRAIT
REGIONAL SCHOOL BOARDS
BY THE
MINISTER'S REVIEW COMMITTEE

DECEMBER 18, 2001

Report of the Minister's Review Committee

INTRODUCTION

During October 2001 it came to the attention of the Department of Education that officials of the Chignecto-Central Regional School Board (CCRSB) had authorized expenditures of approximately \$1.7 million during the summer of 2001 without the knowledge of the elected board. The board conducted an investigation into the matter and the role played by those involved.

During the same period the Department also became aware that, in November 1998, the Strait Regional School Board (SRSB) had provided a \$500,000 loan guarantee to the Royal Bank in support of the personal indebtedness of the Superintendent of the board. The board had commenced an investigation into the matter and the role played by those involved.

The Minister of Education responded to these events by requiring the boards to provide written reports outlining what had occurred and, in addition, the Minister appointed a review committee consisting of officials from the Departments of Finance, Justice and Education (the review committee). The report of the CCRSB is attached to this report and the SRSB report is outstanding at the time of writing as the board investigation is not complete.

ROLES AND RESPONSIBILITIES

Mandate and Role of the School Board:

The school board is accountable to the Minister of Education and is primarily responsible to investigate, act and report on the matters associated with the expenditure of funds.

The Education Act provides:

64 (1) "A school board is accountable to the Minister and responsible for the control and management of the public schools within its jurisdiction in accordance with this Act and the regulations."

64(2) "A school board shall, in accordance with this Act and the regulations,

(ab) provide for the effective and efficient management of the financial affairs of the board;"

Mandate and Role of the Review Committee:

The review committee was created under the Minister's authority pursuant to the Education Act that states:

141(k) "The Minister is authorized to effect improvement generally in the conduct and administration of school boards, and, among other things, consult with, assist and advise school boards, develop proper methods of school board administration, financing, accounting and auditing, and collect, compile and disseminate education statistics and information."

The mandate of the review committee is to advise the Minister as follows:

- Comment on the internal control environment and identify the weaknesses therein which permitted these events to occur, and to provide recommendations for corrective actions thereof;
- To provide assurances to the Minister that following identification of these matters, that the boards have:
 - taken appropriate measures to fully investigate the events in question;
 - evaluated any options available to the board, either through civil or criminal actions, and recoveries thereof, and;
 - established appropriate control environments at the board level to prevent recurrence.

The review committee has reported based upon the information provided to the time of writing. It should be noted that it is possible, and perhaps probable, that corrective measures taken by the boards such as the ongoing forensic review and the replacement of key senior staff may identify other issues subsequent to the issuance of this report that were not known to the review committee during its review.

PROCESS FOLLOWED BY THE REVIEW COMMITTEE

The review committee has received the full co-operation of board staff and elected board members in conducting this review. Meetings were held with selected board members and senior staff during October – November 2001, as required.

Events Giving Rise to this Review:

Following is a summary of the events that have occurred in each of the boards. This is integral to understanding the control breakdowns that occurred permitting these events to happen, as well as subsequent discussion of recommendations.

Chignecto-Central Regional School Board:

- Discussions with the board indicated that during the summer of 2001 the board Superintendent, Mr Elmer MacDonald, directed the spending of \$1.7 million without the express approval of the board as required by board policy. Rather than providing a control mechanism, the Chief Financial Officer (CFO), Mr Robert Renouf, participated in these events. Subsequent review by the board determined that the expenditures were made for valid educational purposes, however they were not made in accordance with board policy and on subsequent review the concern arose that the geographic distribution of the expenditures did not reflect equity in the distribution of education spending. The board was denied the discretion of determining how these funds would be expended.
- The funding to permit the redirection of expenditures described above was made possible from two practices. First, senior staff accrued purchase orders at March 31, 2001 to fully expend excess budget funds available in that year. No legal commitment existed for these purchase orders. Available funding arising from these practices was then utilized at the sole discretion of the Superintendent, without board oversight.
- The reporting of pensionable service to the Teacher's Pension Board with respect to the Superintendent included the Superintendent's travel allowance of approximately \$24,000 per annum. Pensionable service is generally comprised of income or salary only, and clearly should not include elements of expense reimbursement. This resulted in a significant overstatement of the Superintendent's rights to retirement benefits under the plan on retirement.
- The Superintendent had instituted a practice of permitting the cashing of unused vacation days. Senior staff were permitted to receive payment for unused vacation in lieu of time off. The board was not aware of this practice although, in the case of the Superintendent, a clause to that effect existed in the employment contract signed by the board. The cashing of vacation days was particularly questionable in the case of retiring employees. Any justification that may exist for this practice is based on the inability of staff to access time off due to work commitments and is not relevant to retiring staff.

- The Superintendent negotiated a personal services contract with the CFO of the board setting out the employment rights and benefits of the CFO. The board had no awareness that the Superintendent had provided this contract either in advance or by way of information reporting after the fact. Identification of the contract only came to light as a result of other matters.

Strait Regional School Board:

- The board issued a guarantee to the Royal Bank of Canada in November 1998 in support of the personal indebtedness of the Superintendent, Mr John Sullivan, in the amount of \$500,000.
 - The guarantee was signed by the board chair at the time, Mrs. Marie Campbell, the CFO - Mr John Cameron, and witnessed by Mr Bruce MacKeen, a local solicitor. It is a standard bank guarantee document. Key clauses stating the amount, and identifying the indebtedness as that of Mr John Sullivan, have been initialled by the signatories.
 - Issuance of the guarantee was made without the awareness of the board at large. The then Chair has indicated a lack of appreciation for the nature of the document signed.
 - Existence of the guarantee was not disclosed in the board's financial statements at the time or subsequently.
 - The Education Act does not authorize a school board to make a guarantee.
- Compensation arrangements surrounding the Superintendent and CFO were not subject to any meaningful review or oversight by the board. This is best illustrated by examples:
 - The Superintendent's employment contract contains a clause making the terms of the contract confidential to the officers of the board only and therefore not privy to the board at large, the Department of Education or the public. The existence of confidentiality clauses within personal services contracts are not consistent with principles of open disclosure and legislative requirements for disclosure.
 - The Superintendent's contract first negotiated in 1996 with a five-year term was renegotiated in 1998 after only three years. There did not appear to be any board motivated rationale for this renegotiation or appreciation of the fact that the original contract had not expired. The subsequent contract issued in 1998 contains a substantial escalation in the benefits extended to the

Superintendent.

- There did not appear to be any evaluation of the total compensation provided under the contract but rather a focus upon base compensation only. The sum of compensation provided to the Superintendent and CFO greatly exceed the market price for similar positions in the public sector when the value of payments made under travel, professional development and other clauses are factored in.
- Compensation contracts of both the Superintendent and CFO contain clauses that do not reflect the best interests of the board. The ability of the Superintendent to receive severance on completion of the contract term but without being terminated is an example. External professional support in the development of the contracts is not evident.
- Reporting of salary and benefit information reported to the Department of Education and the Auditor General misrepresents the actual payment of salary and expenses at the board.
- The board had entered into a number of commercial arrangements and partnerships that are not directly related to the provision of core public education. Board senior staff also served in executive positions in these organizations.

Discussion:

Internal controls are established for the broad purpose of protecting an organization's assets and exist within the framework of several key principles. A fundamental principle of any control system is that there is an adequate division of duties and powers between individuals such that no one individual has the power to access the organizations assets inappropriately, or that if this occurs it is detected and reported.

A second principle is the need for an over-riding governance structure where there exists an appropriate level of inquiry and review of the actions of staff in the performance of their duties. An element of trust is not inconsistent with this model provided that it co-exists in an environment of reporting and accountability.

The school board environment is one in which there is a high degree of concentration of power with a relatively small number of senior administrative staff. In this environment it is critical that the concentration of powers be offset by a strong accountability for the performance of staff by the board. In each of the instances under consideration by the review committee, there existed a high degree of trust in the senior management of the board prior to the events in question.

Responsibilities of organizations with respect to internal control and compensation review are commonly addressed through an audit or human resource committee that fulfills the board's obligations of inquiry and review in greater depth. Such committees should be fully informed of the manner and style of management compensation in place both at inception and as revised from time to time. Such a committee should not be dependent upon the information being brought for their review but rather must maintain an inquisitive and demanding mindset to ensure awareness and policy compliance. First and foremost it was the opinion of the review committee that the most significant issue that emerged was the need for improvements in the governance of school boards to insure that accountability is achieved. This is not to say that many boards do not have effective governance structures that respond to their obligations, including internal controls. It was not evident, however, that boards demanded accountability from management in all cases. A distinction is made between proactive management teams choosing to provide accountability information to boards and boards demanding accountability. This difference is critical to understanding how there can be well functioning boards in many cases or with respect to other responsibilities, yet have events of this magnitude occur.

It is a significant challenge for part-time board members to address the responsibilities inherent in the oversight of organizations with budgets as large as \$250 million. Board members have varying degrees of experience and expertise with respect to governance in large organizations. In some cases, individuals may be reluctant to challenge a professional managerial team to be accountable, or may lack the expertise to evaluate complex contracts.

The review committee identified a strong need for a support network to enhance the accountability framework in boards. Improvements in this area could take many forms. For example, with respect to compensation issues in the provincial sector, the Public Service Commission fills the role of providing independent professional advice, maintaining consistency and relativity standards, as well as ensuring contractual terms are aligned with the best interests of government. Exercise of such a support role would have prevented the employment contracts that were extended in the case of the SRSB or the ability of the CCRSB Superintendent to extend an employment contract to the CFO without review or awareness of any other party.

RECOMMENDATIONS

- The review committee concurs that all personal services contracts entered into by school boards be subject to Department of Education approval prior to execution by the board. This recommendation provides reasonable assurance that contract terms, wage levels and responsibilities are subject to a consistency test across boards and that appropriate negotiations are reached in all cases.

- The review committee concurs with the need for a review by the public Service Commission of senior staff compensation across Nova Scotia school boards. Such review should include evaluation of the consistency and relativity of compensation across school boards, the appropriateness of the manner and style of compensation employed by school boards, review of the contractual terms evident in contracts to ensure that board rights have been adequately established and address the reporting and monitoring structures which exist to ensure that instances of conflict and self benefit are not permitted to occur.
- The review committee identified the need for there to be controls surrounding a board's ability to participate in commercial arrangements, either directly or indirectly, that fall outside of core public school education. Irrespective of the above, boards should not engage in activities that fall outside of the Education Act.
- School boards should be required in all cases to establish audit committees with clearly understood roles and responsibilities. Such committees should be tasked with oversight responsibilities, provide a more in depth forum for satisfying the board's internal control responsibilities, and enhance communications with the board, auditors and management with the objective of creating an environment where senior management is accountable for their actions on an ongoing basis.
- The Department of Education should expand the annual salary and expense report to include a direct representation from the audit committee that the report includes all compensation of employees.
- The Department of Education should evaluate its role in the oversight of school boards. Such an evaluation should reflect a view towards extending the departmental oversight of boards to include the effective administration and governance of boards.
- The Department of Education should require that a staff representative participate in the negotiation of board superintendent contracts. At present, the department has involvement in hiring and periodic performance evaluation but no role in the establishing and renewal of contracts.
- The Department of Education should evaluate the cost-benefit relationship in extending the external audit to include the board salary and expense reports filed annually with the Department of Education.
- The review committee supports the release of a revised school board financial handbook to provide increased consistency and accountability in board reporting and accounting.

- The review committee endorses the appointment of the forensic review of the SRSB. Such a review is required to fully investigate the events that have occurred, to identify recoveries and claims that can be exercised to minimize the losses of the board, to evidentially support potential recovery claims that may be initiated by the board, and to protect the board from further liability or claims from other parties.
- The review committee concurs that the Chief Financial Officer of the SRSB be a mutually agreeable selection of the board and department with a clear accountability relationship to the Department of Education, until such time as a satisfactory control environment is established.

INVESTIGATION AND RECOVERY ACTIONS OF THE BOARDS

The review committee was satisfied in the case of both boards that procedures had been put in place to adequately investigate the events that had come to light and also that the boards broadened their investigations when it became apparent that management had not acted in the board's best interests. Both boards utilized the services of external legal services to lead their investigations in the initial stages, with additional support being obtained by way of a review of the implications on their external audit at the CCRSB performed by Grant Thornton, and a forensic audit being conducted at the SRSB by Price Waterhouse Coopers. These reports are outstanding at this time.

CCRSB correspondence accompanying the report addresses the matter of whether the actions of officials were of a criminal nature and states that there are no grounds for pursuing a criminal investigation. As for the SRSB, we have noted that the board has requested a criminal investigation by the RCMP.

Both boards are giving full consideration to recovery options from the individuals in question for amounts where personal liability can be established, and have or will take legal counsel as to the merits of any potential civil action. Consideration of a possible insurance claim is also relevant in the case of SRSB.

Finalization of the external reviews above may also result in further actions by the boards for recovery.

As well as addressing the immediate need to investigate the matters that had arisen, both boards recognized the need to make longer-term improvements to evaluate and correct the weaknesses giving rise to these events.

CONCLUSION

The review committee has provided a number of recommendations for improvements in the accountability framework in school boards. In addition, the review committee notes the value in follow-up of the recommendations and findings that are anticipated from work being conducted by the Public Service Commission with respect to compensation and accountability, the Grant Thornton review of audit implications in the CCRSB and the Price Waterhouse Cooper's forensic review of the SRSB.

Collectively, these recommendations offer significant improvements in the control environment of boards.

MINISTER'S REVIEW COMMITTEE

Department of Education

Darrell Youden	Senior Executive Director, Corporate Services
Joe MacEachern	Director, Grants and Audit

Department of Finance

Kevin Malloy	Controller, Province of Nova Scotia
Rob Philpott	Director, Internal Audit

Department of Justice

John Traves	Director, Legal Services
James Gregg	Senior Solicitor

November 23, 2001

COPY

PricewaterhouseCoopers LLP
Chartered Accountants
1809 Barrington Street
Suite 600
Halifax Nova Scotia
Canada B3J 3K8
Telephone +1 (902) 491 7400
Facsimile +1 (902) 422 1166
Direct Tel. +1 (902) 491-7410

PRIVATE & CONFIDENTIAL

Mr. George Kehoe, Chair
Strait Regional School Board
16 Cemetery Road
Port Hastings, NS B0E 2T0

And

Mr. Dennis Cochrane, Deputy Minister
Nova Scotia Department of Education
4th Floor Trade Mart Building
2021 Brunswick Street
PO Box 578
Halifax, NS B3J 2S9

Dear Mr. Kehoe and Mr. Cochrane:

Forensic Audit - Strait Regional School Board

1 Introduction

This letter confirms that PricewaterhouseCoopers LLP has been retained by the Strait Regional School Board (the "School Board") and the Nova Scotia Department of Education (the "Department of Education") to provide the services ("the Services") set out below. This letter outlines the Services to be provided and the fees to be paid in respect of those Services. The Services set out below do not constitute an audit of the School Board's financial statements.

2 Our Understanding of the Current Situation

Our understanding of the current situation relating to this assignment is outlined as follows:

- Irregularities pertaining to financial transactions and contractual commitments connected with the Strait Regional School Board are alleged to have occurred;
- Questionable commitments are alleged to have been made by former staff and former board members for the benefit of the former superintendent which compromise the school board's assets;
- Material internal control weaknesses surrounding the safeguarding of the School Board's assets are believed to exist;

3 Scope of our Services

The scope of our services are summarized below:

- Provide the Department of Education and the Strait Regional School Board with our findings, surrounding the activities of the Strait Regional School Board, for consideration of undertaking possible legal actions and providing an account of the alleged irregularities;
- Conduct interviews of relevant individuals in support of our findings;
- Review other transactions that may be of a questionable nature or do not have the appropriate support in the furtherance of the school board's mandate;
- Identify other questionable transactions and related party transactions for possible further investigation;
- Provide internal control and other recommendations to assist the School Board to safeguard the School Board's assets;

- Provide recommendations to assist the School Board and the Department of Education in identifying issues of fiscal management related to the School Board's activities; and
- At the direction of the School Board or Department of Education, or as required by law, respond to requests for appearances for inquiries supporting our findings including but not limited to subpoenas, testimony and other situations outside of progress reports and our final report to the School Board and Department of Education.
- Our examination will not provide an opinion regarding the presentation of the School Board's financial statements or if they comply with generally accepted accounting principles.
- Our examination will not determine if the audit of the School Board's financial statements was conducted in accordance with generally accepted auditing standards.
- Identify potential issues in connection with the School Board's financial statements.

Appendix A, attached, provides further details of the scope of the Services agreed to by the School Board and the Department of Education.

During the course of the assignment, we may recommend for your approval changes in the scope of the assignment as a result of additional information that we become aware of.

4 Timetable

Our approach in the delivery of services is to apprise the appropriate parties on a regular basis of our progress. Where warranted and certain circumstances arise, we will immediately inform the appropriate parties of our findings outside of our regular progress reporting. We appreciate the urgency of these matters and have commenced our fieldwork with two staff assigned November 19, 2001 on a full-time basis as you are aware.

5 **Staffing**

Patrick O'Neil will be in charge of the Services contributing advice, overseeing the provision of the Services and attending key meetings at your request. Steve Henderson will also be involved on the engagement as a concurring partner. Abel Lazarus will act as project manager with the help of Myles Johnson, calling upon specialist staff, as we deem appropriate. We reserve the right to change staff, but we will only change the named senior staff after discussion with you.

During the course of this assignment, it may become necessary for PricewaterhouseCoopers to engage independent legal counsel respecting matters which may arise which require legal advice and opinion. Should this become necessary, we will advise you in advance of the requirements. The cost of these legal services will be an additional charge in our account for services to the Board and the Department.

6 **Fees**

Our fees are based on the hours actually incurred by each staff member and the standard hourly billing rates for those individuals.

In addition to the time incurred on the forensic assignment, our fees for preparation and appearances in support of our findings to public bodies and other inquiries as required will be charged separately from our forensic services.

In addition to the fees outlined above, HST and out-of-pocket expenses will be charged to the Department of Education and may comprise airfares, meals and hotel accommodation and other travel [dependent on location].

Invoices for services will be rendered twice a month, covering the first 15 days of each month and the second 15/16 days of each month.

7 **Terms and Conditions**

The attached terms and conditions set out the duties of each party in respect of the Services. The terms and conditions provide that, amongst other things, you will indemnify us against claims brought by any third party and that our aggregate liability to you whether in contract, tort or otherwise will be limited. The limit will be a

maximum amount of the amount paid by you in respect of the Services.

This letter and the terms and conditions attached comprise the entire contract ("the Contract") for the provision of the Services to the exclusion of any other express or implied term, whether expressed orally or in writing, including any conditions, warranties and representations and shall supersede all previous letters of engagement, undertakings, agreements and correspondence regarding the Services.

8 Governing Law and Jurisdiction

The Contract shall be governed by and interpreted in accordance with the laws of Canada and Nova Scotia. The Courts of Canada shall have exclusive jurisdiction in relation to any claim, dispute or difference concerning the Contract and any matter arising from it.

9 Acknowledgement and Acceptance

Please acknowledge your acceptance of the terms of our engagement under the Contract by signing the confirmation below and returning a copy of this letter and a copy of the attached terms and conditions to us at the above address.

If you have any questions regarding this letter or the attached terms and conditions, please do not hesitate to contact us.

Yours very truly

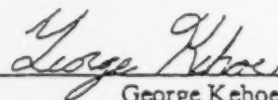
Price Waterhouse Coopers LLP

J. Patrick O'Neil, FCA, CMC
Assurance and Business Advisory Services

Confirmation of Terms of Engagement

Having read both the above letter of engagement from PricewaterhouseCoopers LLP and the Terms and Conditions attached thereto, we agree to engage PricewaterhouseCoopers LLP upon the terms set out therein.

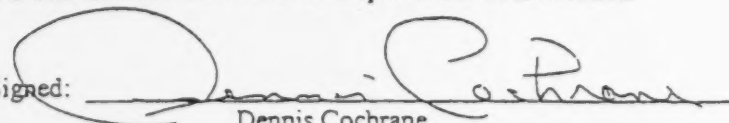
On behalf of the Strait Regional School Board

Signed: 
George Kehoe

Position: Chair – Strait Regional School Board

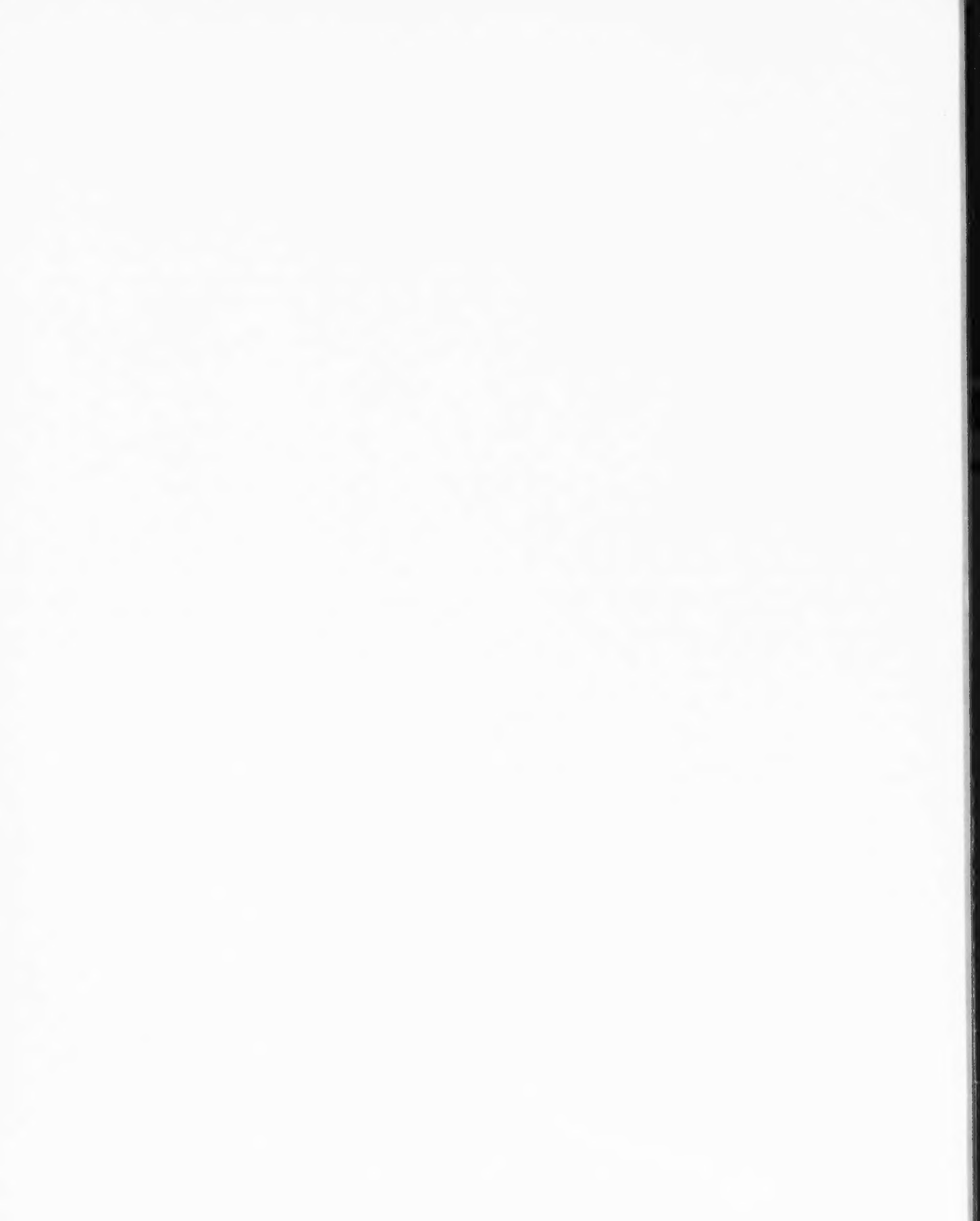
Date: _____

On behalf of the Nova Scotia Department of Education

Signed: 
Dennis Cochrane

Position: Deputy Minister – Department of Education

FEB 06 2002
Date: _____



APPENDIX D

DRAFT AUDIT COMMITTEE CHARTER

Purpose

To assist the Strait Regional School Board in fulfilling its oversight responsibilities for the financial reporting process, the system of internal control over financial reporting, the audit process, and the Board's process for monitoring compliance with laws and regulations.

Authority

The audit committee has authority to conduct or authorize investigations into any matters within its scope of responsibility. It is empowered to:

- Retain outside counsel, accountants or others to advise the committee or assist in the conduct of an investigation
- Seek any information it requires from employees – all of whom are directed to cooperate with the Committee's requests – or external parties
- Meet with Board officers, external auditors or outside counsel, as necessary

Composition

The Audit Committee will consist of three or four members, at least one of who shall be a member of the Board. The Board or its nominating committee will appoint committee members and the committee chair.

Each committee member will be financially literate and at least one member shall have expertise in financial reporting.

Meetings

The committee will meet at least four times a year, with authority to convene additional meetings as circumstances require. All committee members are expected to attend each meeting, in person or via tele-conference. The committee will invite members of management, auditors or others to attend meetings and provide pertinent information, as necessary. It will hold private meetings with auditors (see below) and executive sessions. Meeting agendas will be prepared and provided in advance to members, along with appropriate briefing materials. Minutes will be prepared.

Responsibilities

The committee will carry out the following responsibilities:

Financial Statements

- Review significant accounting and reporting issues, including complex or unusual transactions and highly judgmental areas, and recent professional and regulatory pronouncements, and understand their impact on the financial statements
- Review with management and the external auditors the results of the audit, including any difficulties encountered
- Review the annual financial statements, and consider whether they are complete, consistent with information known to committee members, and reflect appropriate accounting principles
- Review other sections of the annual report and related regulatory filings before release and consider the accuracy and completeness of the information
- Review with management and the external auditors all matters required to be communicated to the committee under generally accepted auditing standards
- Understand how management develops interim financial information, and the nature and extent of internal and external auditor involvement

- Review interim financial reports with management and the external auditors, before filing with regulators, and consider whether they are complete and consistent with the information known to committee members

Internal Control

- Consider the effectiveness of the Board's internal control over annual and interim financial reporting, including information technology security and control
- Understand the scope of external auditors' review of internal control over financial reporting, and obtain reports on significant findings and recommendations, together with management's responses

External Audit

- Review the external auditor's proposed audit scope and approach
- Review the performance of the external auditors, and exercise final approval on the appointment or discharge of the auditors
- Review and confirm the independence of the external auditors by obtaining statements from the auditors on relations between the auditors and the company, including non-audit services, and discussing the relationships with the auditors
- On a regular basis, meet separately with the external auditors to discuss any matters that the committee or auditors believe should be discussed privately.

Compliance

- Review the effectiveness of the system for monitoring compliance with laws and regulations and the results of management's investigation and follow-up (including disciplinary action) of any instance of non-compliance
- Review the findings of any examinations by regulatory agencies, and any auditor observations

- Obtain regular updates from management and Board legal counsel regarding compliance matters

Reporting Responsibilities

- Regular report to the Board about committee activities, issues and related recommendations
- Provide an open avenue of communication between the external auditors and the Board
- Report annually to the public describing the committee's composition, responsibilities and how they were discharged, and any other information required by rule
- Review any other reports the Board issues that relate to committee responsibilities

Other Responsibilities

- Perform other activities related to this charter as requested by the Board
 - Institute and oversee special investigations as needed
 - Review and assess the adequacy of the committee charter annually, requesting Board approval for proposed changes
 - Confirm annually that all responsibilities outlined in this charter have been carried out
 - Evaluate the committee's and individual members' performance on a regular basis

Total payments for each vendor include, where applicable, charges for goods and services, fees, expenses and HST, and may not represent the net cost to the SRSB if revenues from cost-sharing arrangements, external funding sources, etc. were received.

Vendor	Evidence of tender?
MacIntosh Construction Limited	Yes
Knowledge House Inc. / Knowledge House TS Limited	No
John F. Cameron Consulting / Achnacarry Consulting Limited	No
Beowulf Consulting Services Limited	No

S. 15(1)(a),
15(1)(c),
15(1)(g)

S. 15(1)(a),
15(1)(c),
15(1)(g)

S. 15(1)(a),
15(1)(c),
15(1)(g)

Mulgrave Professional Development Centre ("MPDC")

MPDC facilitates the SRSB staff training and curriculum development projects, while simultaneously providing technology and training facilities available for other entities. In October 1997, the Board approved the terms of reference for a Coordinator of Professional Development Centre. Subsequent to this approval, a SRSB employee was transferred to this position with an increase in salary equivalent to a Director's level. As part of the administrative function of MPDC, SRSB currently pays the salary of the facility administrator, who oversees the leasing of space at the centre. Tenants have included Knowledge House Inc. and ALIN. However, based upon discussions with ALIN will be vacating the premises. Our review of the records and financial information provided by did not indicate that a significant amount of rent was earned by MPDC. The operating loss for the eight months ended November 30, 2001 is approximately \$50,000. Also, we did not identify any signed leases between tenants and the SRSB.

Braemore Centre of Excellence ("Braemore Centre")

The Braemore Centre was a former elementary school, is located in Antigonish, NS and is being managed by SRSB. The Braemore Centre also provides facilities for tenants, which have included the St. F.X. Teacher Resource Centre, Adult Learning Society and the Venture Centre. We did not observe any formal rental agreements between the tenants of the Braemore Centre and the SRSB.

Similar to MPDC, the SRSB pays the salary of the facility administrator. The staff at the Braemore Centre was reassigned to this location through the central office restructuring effective August 1, 2000. Capital expenditures have been made to improve the facilities at the Braemore Centre without the knowledge of the Board. One such expenditure noted during our review involves a local contractor who installed network cable at the facility. Neither the contractor nor the Board had any documentation indicating who may have ordered the work performed. During the time of this work, there was purported to be a tripartite management of Braemore Centre between Knowledge House, ALIN and the SRSB. However, this arrangement did not formally materialize, leaving only ALIN and the SRSB to operate Braemore Centre.

The Acting Superintendent, on behalf of the SRSB, communicated principles, which, if followed, could form the basis of a cost-sharing arrangement. In the absence of a formal agreement, specific items related to Braemore Centre are being handled as follows:

- SRSB provides staff for administration and maintenance;
- ALIN space is provided at no charge; and
- ALIN is to assume the costs for electrical and communications upgrades.

Based upon discussions with and information provided by
Braemore Centre:

the

- Did not have signed leases with tenants; and
- The operating loss for the eight months ended November 30, 2001 was approximately \$70,000.

Chedabucto Place

Located in Guysborough, NS, Chedabucto Place includes facilities for community use. However, the terms of agreement between SRSB and the Municipality of Guysborough are not finalized regarding cost sharing matters and funds availability. The SRSB has incurred costs during the nine months ended December 31, 2001 of approximately \$18,000, consisting primarily of fees paid to Achnacarry Consulting Limited. These fees were primarily for fundraising.

Strait East Nova Community Enterprise Network ("SENCEN") and Atlantic Learning Innovations Network ("ALIN")

SENCEN initially provided and facilitated public access to information technology via community access points ("CAP" sites). The Board, as indicated in Board meeting minutes, was informed that funding for this operation would be acquired through grants from both the Provincial and Federal governments. However, it appears that the SRSB assisted in providing the start-up funding through actual expenses paid, including salaries to SRSB staff members while working on behalf of SENCEN. In addition to the actual costs incurred, SENCEN, which was organized as a society with the Registry of Joint Stock Companies, included

ALIN, which evolved from SENCEN, continued to provide the technological infrastructure to the rural communities within the SRSB's region and other areas. In addition to the technological infrastructure, ALIN promoted community economic development programs for the information economy. Similar to SENCEN, this entity was organized as a society with the Registry of Joint Stock Companies and included directors who were also employed as SRSB staff. In both organizations, it was primarily selected senior SRSB staff who were listed as directors of these societies. However, in September 2001, _____ communicated to _____ that he "has been advised that he is in a conflict of duty with respect to his involvement with ALIN."

However, SRSB has paid

.. The SRSB's financial statements presented costs on the Statement of Operations in the School Administration and Instruction amounts, associated with SENCEN/ALIN for the year ended March 31, 2001 in the amount of \$407,421. We understand that these costs were fully recovered in 2001 from grants received from the Province of Nova Scotia.

The SRSB financial statements also included a receivable from ALIN as at March 31, 2001 in the amount of \$112,441.

It is our understanding that the SRSB and ALIN have entered into discussions to resolve amounts due.

